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What Do We Know About Valerie Szczepanik, the First Crypto Czar

Here's the woman who now embodies crypto regulation in the US.

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Is creation of a SEC office designated to deal with digital assets a good or bad news for the industry? This is the question that crypto community has been mulling over last week, following the SEC's announcement of Valerie A. Szczepanik's appointment to the brand new position of Associate Director of the Division of Corporation Finance and Senior Advisor for Digital Assets and Innovation for Division Director Bill Hinman.

The media have promptly reduced the exuberant title to the likes of Crypto Czar, Crypto Sheriff, Cryptocurrency Chief, or Crypto Quarterback, which all point to the fact that from now on the vast yet diffused regulatory powers that the SEC holds over the blockchain realm is embodied in

a single person. There is now a go-to office and a go-to officer, who is set to become a liaison between the regulator and the industry.

Growing wary with this development is quite a natural first response for those who have stakes in cryptocurrency and ICO markets. Libertarians from Reason's blog platform classified it as 'potentially bad news for fans of Bitcoin and other digital currencies.' After all, the SEC's actions throughout the last few months were mainly in the spirit of a regulatory incursion, and the appointment of a person to spearhead this effort might also feel through this retributory lense. Yet the community's overall mood in the wake of Szczepanik's promotion seems quite sanguine, as people go back to examine the record of her statements and find out that she is more likely to be the good cop rather than the bad.

Valerie A. Szczepanik on crypto

"Whether a token is a security or not is a fact or circumstance-based thing and you have to really pick it apart."

At Consensus 2017

"I think if you were to start down the road of being very prescriptive and putting out specific releases about hypothetical situations, not only would you probably waste a lot of time, you would probably create a road map to get around it."

At the ACT-IAC 2018 Blockchain Forum

"We never turn down a request for a meeting [...] We're not going to do the innovating for people. But we want people to come in and propose solutions they want to accomplish."

SINET Innovation Summit, June 2018

Who is she?

Ms. Szczepanik is a seasoned attorney whose tenure with the Securities and Exchange Commission exceeds two decades. Her educational record includes a BS in engineering from the University of Pennsylvania, followed by a JD from Georgetown Law School. In the late eighties

she practiced patent law, reviewing applications filed by inventors of golf putters, medical devices, and even spherical dice with interchangeable orientation insert members. She then worked as a clerk for federal judges in district and appellate courts in DC before moving north to serve as Special Assistant United States Attorney at the United States Attorney's Office for the Eastern District of New York.

The future crypto czar joined the SEC in 1997 as a Trial Counsel. In that capacity, she was responsible for litigation in civil and administrative proceedings that often dealt with cases of insider trading. One of the most high-profile enforcement actions Szczepanik was involved with was the storied case against Raj Rajaratnam and his hedge fund advisory firm Galleon.

When crypto came along, Szczepanik wasted no time. As the Division Director Bill Hinman noted in the statement:

"Valerie recognized early on the securities law implications of developments like blockchain and distributed ledger technologies, and of cryptocurrencies, Initial Coin Offerings, tokenized securities, and other digital instruments."

When the SEC's Distributed Ledger Technology Working Group was created in 2013, she became head of the unit. Her latest primary appointment was Assistant Director in the Division of Enforcement's Cyber Unit, which she also combined with co-heading the Dark Web Working Group and membership in the FinTech Working Group. With the advent of the ICO era, she became involved in a number of prominent cases against crypto enterprises in New York federal courts, and also worked on an investigation into The DAO's collapse.

What does she stand for?

Ms. Szczepanik is obviously not a stranger in the world of distributed ledgers. Having been versed in the workings of the emerging fintech business from its early years, she routinely represents the SEC on major industry forums. Many observers have noted that her remarks are well-informed and elicit a nuanced understanding of how cryptocurrencies and tokens work. For one, in one of the first public appearances in the new capacity at the SINET Innovation Summit in New York on June 7, the newly crowned crypto czar expressed an ambitious vision of a potential approach to government regulation of ICOs. She suggested that some of the SEC-imposed limitations on token trading could be deployed as smart contracts.

Szczepanik's appointment comes at the point when the financial regulator has found itself toeing the thin line between the right amount of crypto investors' protection and enough latitude for ICO entrepreneurs to let the economy of digital assets and decentralized transactions flourish. Last few months have seen the SEC adopt an increasingly trenchant stance, unleashing its brand new Cyber Unit, taking enforcement actions against ICOs, halting token sales, and issuing subpoenas and information requests to numerous actors of the cryptofinancial ecosystem.

At the same time, the agency is subject to escalating pressure from crypto advocates and investment firms that are concerned about the possibility that regulatory uncertainty would impede the development of the blockchain industry in the US, or are simply looking to capitalize on its numerous profit-generating opportunities. From this vantage point, creation of crypto advisor's office and Szczepanik's promotion could be simply driven by organizational logic: the sheer amount of crypto-related workload prescribes to finally parcel out a separate structure to deal solely with ICO and cryptocurrency regulation. But there also seems to be a lot of political savvy to Ms. Szczepanik's promotion.

Imagine the feelings of the crypto folk if, for instance, in an unlikely twist of the plot the weight of ICO regulation was assigned to be managed directly by Jay "Every-ICO-Is-A-Security" Clayton, or even some of the more rigid characters within the agency. Such news would unlikely drive the market capitalization up, to say the least. Compared to such a scenario, Valerie Szczepanik looks like an accommodating figure. Not only is her promotion a sign that the Feds are ready to tackle crypto regulation in earnest, but also a hint that they are willing to cooperate meaningfully with the blockchain industry.

Recognized as someone who roots for the healthy balance between investor protection and facilitating technology development, she is well-situated to reconcile the two to the extent it is possible at all. Speaking at Consensus 2017, she sounded like embracing the idea that some tokens might be securities and some might not, contingent upon the circumstances of a particular case. The new crypto czar's earlier comments also reveal that she is not a big fan of prescriptive guidance: rather than inventing guidelines for hypothetical situations, she prefers to sit down with innovators and their lawyers to discuss where their projects are heading and whether the developments are in line with the US securities law. Hopefully, the SEC's new crypto officer can infuse her team with the same spirit, for it looks improbable that she personally will have the time to sit down and chat with every single crypto entrepreneur who could use her advice.

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